21 December 2001

SUBMISSION OF THE GOVERNMENT OF NEW ZEALAND TO THE TRADE POLICY STAFF COMMITTEE REGARDING POTENTIAL ACTION ON CERTAIN STEEL IMPORTS UNDER SECTION 203 OF THE 1974 TRADE ACT

Summary

The New Zealand Government welcomes the opportunity to comment on options for action under Section 203 of the Trade Act of 1974 in relation to the steel sector.

2 It is the New Zealand Government's view that there is no basis for the imposition of import restrictions of any kind on steel imports from New Zealand. However should the Administration consider that a remedy is necessary, it should be carefully crafted to focus on the root problems facing the United States steel industry, and allow for the mutually beneficial trade between our two countries to continue under a country-specific tariff rate quota set at historically representative levels using a 1999-2001 base period. This small but steady trade is of substantial interest not only to the New Zealand steel industry but also to its long established United States West Coast customers.

Views on Potential Action

3 While the New Zealand Government recognises the need for the United States steel sector to adjust to changing world market conditions, it does not consider that this should be at the expense of imports through the imposition of restrictions at the border. In particular it does not consider that the small (94,000 tonnes or 0.2 percent of total US imports in 2000) and steady supply of New Zealand steel products to the United States has contributed to the problems being experienced by the United States industry, with our steel exports actually decreasing overall during the period of investigation.

4 New Zealand was therefore disappointed that the United States International Trade Commission majority has recommended to the President that he impose tariffs of up to 20 percent for four years on steel imports from New Zealand. A proposal for prohibitive tariffs on all imports does nothing to encourage the sort of global rationalisation of capacity that the Administration has stressed. Such restrictions would reward those subsidised and inefficient foreign producers that have little regard to profit or market forces. Some producing countries, including New Zealand, have already taken steps to reduce capacity substantially while many other countries have not. The imposition of an across the board tariff or global quota would in effect reward subsidised importers and those who sell below cost to the detriment of non-subsidised competitive

producers. Distorting market forces through the introduction of prohibitive tariffs would also impact not only on the United States domestic steel industry, but also the United States steel consuming industry and ultimately the United States economy.

5 Should the President consider that safeguard measures are necessary at the border, it is the New Zealand Government's view that it should be carefully crafted to allow for the mutually beneficial trade between our two countries to continue at historically representative levels. A country-specific tariff rate quota for each of the major product groups which New Zealand exports would address any concerns about an increasing volume of imports from New Zealand. This would allow New Zealand exporters to maintain their long-standing relationships with their United States customers thereby limiting the damage to steel consuming industries.

6 In accordance with the WTO Agreement on Safeguards, such a tariff rate quota would need to be based on the average of imports in the last three representative years for which statistics are available ie 1999-2001. The measure should also be progressively liberalised at regular intervals to better reflect normal market conditions. A tariff rate quota based on the recent representative period would also be far less distorting than an across-the-board tariff because the quotas respect market-driven import trends.

7 The WTO Agreement on Safeguards, and WTO jurisprudence, leave no doubt that safeguard measures are exceptional remedies and must only be applied as a temporary means to improve an industry's competitiveness without unnecessarily restricting trade. Import relief must therefore be tailored so as to provide a clear incentive for industry to adjust. Any safeguard measures should therefore be imposed for the shortest period possible to ensure restructuring is undertaken as quickly as possible and not merely used to prolong uneconomic production. Under the terms of the United States Trade Act, the President has the scope to adopt any action that he considers "appropriate and feasible" in response to a recommendation by the International Trade Commission. New Zealand considers that the Administration should favour measures which encourage market adjustment and restructuring and which limit the scale and scope of import restrictions.

Background

8 The New Zealand steel industry is unsubsidised and has undertaken significant restructuring initiatives in recent years, including reduction of capacity, in response to a changing domestic and international steel market. The New Zealand steel sector is open and market oriented - New Zealand continues to import a significant amount of iron and steel products, including from the United States. While imports from New Zealand are low in terms of overall United States steel imports, they are of substantial interest for New Zealand steel exporters, and are also beneficial to the United States importers of the product.

9 The US steel industry is extremely diverse, and the difficulties experienced by the industry can be attributed to a range of causes that need to be addressed in a variety of ways. For example, New Zealand appreciates the United States' efforts to discuss in the OECD initiatives to address over-capacity and subsidisation in the global steel market, and New Zealand has participated in the Paris meetings.

10 The preamble of the WTO Agreement on Safeguards recognises the importance of structural adjustment and the need to enhance rather than limit competition in international markets. In determining the appropriate method of assistance for its domestic industry, the Administration needs to consider each of the relevant factors impacting on the United States domestic industry and tailor a remedy appropriate to each factor. Injury caused by factors other than imports (eg. changes in sales, production, productivity, capacity utilisation) should not be attributed to imports and therefore cannot be remedied by import restrictions. Only remedies that focus on the core problems facing the United States steel industry will assist it in adjusting to the changing environment.

Conclusion

11 Steel imports from New Zealand have been at very low and relatively steady volumes for many years. The New Zealand Government considers that there have been numerous factors which may have impacted on the United States steel industry, including global overcapacity for steel production, declining market capitalisation of United States steel producers, health care, pension and regulatory costs, and recently added capacity to the United States industry. The Administration's consideration of the relative weight of these other factors affecting the United States steel industry should lead it to conclude that there is no basis for the imposition of import restrictions on steel imports from New Zealand.

12 However, to the extent that the Administration considers a measure is necessary, a progressively liberalised country-specific tariff rate quota for each of the major product groups which New Zealand exports based on the historical 1999-2001 three year average would meet United States concerns. This would enable the Administration to impose a remedy that would address the concerns about injury whilst also limiting the costs imposed on the steel consuming industries.